Fraser & Neave Holdings (FNH MK)

1QFY26: Quiet Start, Clear Catalysts Ahead

BUY (Maintained)	
Share Price	RM35.36
Target Price	RM40.00
Upside	13.1%

Highlights

- Earnings are broadly within expectations. Backloaded festive sales and commenced commercial milk production in Malaysia should shore up earnings.
- Earnings are further supported by oncoming dairy related production in Cambodia, recovery in Thailand and input cost and forex tailwinds.
- Maintain BUY as F&N offers bargain valuations and its dairy project is gaining traction. Target price remains unchanged at RM40.00.

1QFY26 Results

Year to 30 Sep (RMm)	1QFY26	qoq % chg	yoy % chg	Comments
Revenue	1,303.4	6.2	(6.2)	Later run-in festive related sales vis-à-vis 1QFY25 coupled with disrupted Cambodia sales from Thailand weighed on yoy sales.
GP	422.7	5.6	(7.0)	
EBIT	176.0	5.3	(17.8)	Further weighed by expected losses with its dairy project.
PBT	175.8	4.0	(26.9)	
Net Profit	112.2	(1.8)	(33.6)	
Core Profit	111.0	(8.1)	(34.3)	Within expectations at 20% of both our and consensus earnings estimates.
Margins	(%)	qoq ppt chg	yoy ppt chg	
Gross Profit	32.4	(0.2)	(0.3)	
EBIT	13.5	(0.1)	(1.9)	
Eff. tax rate	(36.1)	(5.9)	(7.0)	
Core Profit	8.5	(1.3)	(3.6)	

Source: F&N, UOB Kay Hian

Analysis

- **Within expectations.** Fraser & Neave Holdings (F&N) reported a 1QFY25 core net profit of RM111.0m (-8.1% qoq, -34.3% yoy). This is broadly within our and consensus expectations, accounting for 20% of both our and consensus full-year earnings forecasts. We expect the commencement of dairy production in Malaysia and Cambodia, recovery in Thailand, backloaded festive sales coupled with input cost and forex tailwinds to shore up full year earnings.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5245.6	5196.6	5642.9	6445.7	6796.0
EBITDA	900.5	1859.2	2017.8	2256.7	2299.3
Operating profit	846.7	896.6	983.7	1075.6	1053.9
Net profit (rep./act.)	542.8	508.5	551.5	602.0	631.5
Net profit (adj.)	543.7	517.3	551.5	602.0	631.5
EPS	162.6	401.1	432.3	493.9	511.7
PE	23.3	24.5	23.0	21.1	20.1
P/B	3.5	3.3	3.0	2.8	2.6
EV/EBITDA	14.5	13.9	12.8	11.6	11.6
Dividend yield	1.8	1.9	2.0	2.2	2.3
Net margin	10.4	10.0	9.8	9.3	9.3
Net debt/(cash) to equity	-12.0	-0.9	-2.2	-6.0	-11.4
Interest cover	23.3	25.4	30.5	40.2	66.3
ROE	15.7	13.3	13.5	13.7	13.3
Consensus net profit	n.a	n.a	564	621	689
UOBKH/Consensus (x)	n.a	n.a	0.98	0.97	0.92

Source: F&N, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Consumer Staples
Bloomberg ticker	FNH MK
Shares issued (m)	366.8
Market cap (RMm)	12,683.0
Market cap (US$m)	3,233.7
3-mth avg daily t'over (US$m)	4.0

Price Performance (%)

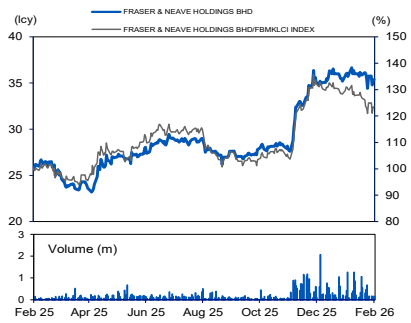
52-week high/low RM29.46/RM23.30

1mth	3mth	6mth	1yr	YTD
(1.8)	22.7	19.2	37.2	(2.6)

Major Shareholders %

Fraser and Neave Ltd	55.5

Price Chart



Source: Bloomberg

Company Description

Leading beverage player which is principally involved in the manufacture, sale and marketing of soft drinks, dairies, and non-carbonated drinks.

1QFY26 Results By Segment

Year to 30 Sep (RMm)	1QFY26	qoq (%)	yoy (%)	Comments
Revenue				
Msia	812.4	11.1	5.6	Despite limited festive related sales, growth was underpinned by robust export sales and a recovery in the East Malaysia market.
Thai	490.2	(0.9)	(20.9)	Perfect storm rocks sales: i) weak economic environment, ii) flooding and iii) disrupted exports to Cambodia
EBIT				
Msia	86.6	8.3	(10.7)	
Thai	91.0	(14.7)	(31.8)	
EBIT Margin	(%)	+/- ppt	+/- ppt	
Msia	10.7	(0.3)	(1.9)	
Thai	18.6	(3.0)	(3.0)	

Source: F&N, UOB Kay Hian

- **Malaysia: Decent performance.** 1QFY26 sales in Malaysia grew at a decent 5.6% yoy despite the comparable quarter capturing festive related sales. This is attributed to: a) double-digit export sales, coupled with improved domestic performance; b) recovery in East Malaysia sales; and c) wider distribution into the HORECA segment. Certain festive related sales are expected to be captured in the following quarter, 2QFY26. Commercial operations at its dairy manufacturing plant at F&N AgriValley commenced in Jan 26, which enabled the sale of its liquid milk and contributions from the school milk programme. Despite higher sales, earnings contracted as the quarter experienced unfavourable forex impact related to its export sales. We believe that its input costs may remain hedged and therefore did not yet benefit from the weaker US dollar against the ringgit.
- **Thailand: Rocked by a perfect storm but the worst should be over.** Revenue contracted sharply by 20.9% yoy owing to weak economic environment, flooding and export disruptions to Cambodia. Sales should recover well owing to the following factors: a) anticipated 2026 tourism revenue rebound of 11% vs 2025's -1.3%, and b) Cambodia is due to commence its own condensed and evaporated production in Mar and mid-26 respectively. Margins were weighed by unfavourable forex and start-up costs related to the set-up of its new manufacturing operations in Cambodia that was partially offset by favourable input costs.

Valuation/Recommendation

- **Maintain BUY and target price of RM40.00.** We continue to like F&N's prospects, with room for recovery in Thailand, the exciting upstream dairy project kicking in, and bargain valuations. A decent execution of its dairy project could spark a re-rating for the company given the structural growth and opportunities the segment offers. F&N trades at 20.1x FY26F PE, a deep bargain to 38.1x which is the average of its consumer staple peers Nestle and QL. Our target price is based on a DCF implying 25.9x FY26F PE, which is slightly above its seven-year mean of 24.4x.

Earnings Revision/Risk

- No changes to our earnings forecast. Key downside risks are spiralling commodities prices and US$/RM forex rates.

Share Price Catalyst

- **Input costs and ringgit trending favourably as well.** F&N typically hedges its input costs. While the company did not disclose its current hedge positions, both sugar and skim milk powder prices have moderated significantly – now 27.8% and 15.6% lower than FY25's averages, respectively. Depending on the timing of its renewed hedge cycle, margins are expected to trend favourably in FY26. Based on sensitivity estimates, every 1% change in sugar and skim milk powder prices impacts earnings by approximately +1.0% and +1.5%, respectively. Meanwhile, the ringgit has been strengthening against the US dollar but also against the baht. Assuming the ringgit's appreciation is broad-based, earnings sensitivity stands at +1.5% for every 1% change in the ringgit vs the US dollar.

Key Assumptions

	2026F	2027F	2028F
Sales (RMm)	5,643	6,446	6,796
Malaysia – ex dairy (% yoy)	0.0	0.0	0.0
Dairy (% yoy)	n/a	155	25
Dairies Thailand (% yoy)	0.0	5.0	3.0
EBIT	984	1076	1054
margin (%)	14.4	13.6	12.4

Source: UOB Kay Hian

Forward PE Band

Source: Bloomberg, UOB Kay Hian

Environmental, Social, Governance (ESG)
Environmental
- Emissions management. Reduced solid waste intensity ratio by 62% from 2017.
Social
- Wellbeing. Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004.
- Diversity & inclusion. Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity.
Governance
- Board balance and composition. Six board members are independent directors, amounting to 55% of the board members.

Source: F&N, UOB Kay Hian

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	5197	5643	6446	6796
EBITDA	1859	2018	2257	2299
Deprec. & amort.	137	151	172	199
EBIT	897	984	1076	1054
Associate contributions	-1	0	0	0
Net interest income/(expense)	-11	-15	-18	-13
Pre-tax profit	697	731	794	835
Tax	-153	-216	-236	-226
Minorities	-2	-6	-7	-8
Net profit	508	551	602	632
Net profit (adj.)	517	551	602	632

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	1,728	2,221	2,449	2,475
Other LT assets	1,014	1,034	1,021	1,006
Cash/ST investment	1135	626	584	563
Other current assets	1,598	1,733	1,835	2,099
Total assets	5,474	5,614	5,889	6,143
ST debt	114	254	204	104
Other current liabilities	996	919	1,003	1,140
LT debt	592	338	288	188
Other LT liabilities	186	224	224	224
Shareholders' equity	3,576	3,863	4,161	4,485
Minority interest	11	16	9	1
Total liabilities & equity	5,474	5,614	5,889	6,143

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	733	604	695	669
Pre-tax profit	697	731	794	835
Tax	-153	-216	-236	-226
Deprec. & amort.	137	151	172	199
Working capital changes	11	-147	-18	-127
Other operating cashflows	40	85	-18	-13
Investing	-254	-717	-382	-212
Capex (growth)	-258	-737	-400	-225
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	4	20	18	13
Financing	-365	-405	-354	-477
Dividend payments	-294	-231	-254	-277
Issue of shares	0	1	2	3
Loan repayment	0	-114	-100	-200
Others/interest paid	-71	-59	0	0
Net cash inflow (outflow)	114	-517	-42	-21
Beginning cash & cash equivalent	1032	1135	626	584
Changes due to forex impact	-10	8	0	0
Ending cash & cash equivalent	1135	626	584	563

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	16.1	17.3	17.4	16.7
Pre-tax margin	13.3	14.2	14.1	13.0
Net margin	10.4	10.0	9.8	9.3
ROA	10.3	9.2	9.6	10.0
ROE	15.7	13.3	13.5	13.7
Growth				
Turnover	4.9	-0.9	8.6	14.2
EBITDA	7.3	5.9	9.7	9.3
Pre-tax profit	24.5	6.0	7.4	5.2
Net profit	-6.3	8.5	9.2	4.9
Net profit (adj.)	-4.9	6.6	9.2	4.9
EPS	-4.9	6.6	9.2	4.9
Leverage				
Debt to total capital	12.9	10.5	8.4	4.8
Debt to equity	19.7	15.3	11.8	6.5
Net debt/(cash) to equity	-12.0	-0.9	-2.2	-6.0
Interest cover	23.3	25.4	30.5	40.2

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